

Message Text

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ACTION INR-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 EB-07 USIA-06 FEA-01
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
FPC-01 H-01 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
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FM AMEMBASSY DACCA

TO SECSTATE WASHDC 3116

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E.O. 11652 N/A

TAGS: ENRG, OPEC, GB, EAID

SUBJ: BANGLADESH: EFFECT OF OIL PRICE RISE

REF: (A)STATE 306331, (B) STATE 309057

1. SUMMARY: BANGLADESH'S PATTERN OF OIL IMPORTS IS EXPECTED TO REMAIN UNCHANGED IN CY 1977 FROM THAT IN CY 1976. THE ROUGHLY \$175 MILLION CRUDE OIL IMPORT BILL IN 1976 INCLUDED 600,000 TONS FROM UAE, 400,000 FROM IRAN AND, WE UNDERSTAND, 200,000 FROM SAUDI ARABIA. ON THAT BASIS, THE 1977 COST WOULD INCREASE NO LESS THEN 6.67 PERCENT TO \$186.7 MILLION. THIS BURDEN IS EXPECTED TO BE OFFSET BY OPEC SPECIAL FUNDS AND HENCE MANAGEABLE DURING 1977. END SUMMARY.

2. IMPORT PATTERN. PETROLEUM SECRETARY TOLD ECON COUNCESLOR DECEMBER 28 THAT PATERN OF CY 1976 PETROLEUM IMPORTS WAS EXPECTED TO BE REPEATED IN CY 1977. HE
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CONFIRMED PRESS REPORTS THAT IN 1977 THE UNITED ARAB EMIRATES WOULD SUPPLY 600,000 TONS OF MURBAN OIL AND IRAN 400,000 OF LIGHT OIL ON SHORT-TERMCREDIT AT FOUR PERCENT INTEREST. TO ENABLE THE EASTERN REFINERY AT CHTTAGONG TO OPERATE AT ITS 1.2 MILLION TON CAPACITY, THE BDG PLANS TO SEEK AN ADDITIONAL 200,000 TONS FROM SAUDI ARABIA. IN ADDITION, BANGLADESH IMPORTS ABOUT

200,000 TONS OF PRODUCT, INCLUDING KEROSENE UNDER BARTER FROM THE USSR. THE TOTAL FOREIGN EXCHANGE COST OF CRUDE OIL IMPORTS, THE SECRETARY SAID, AMOUNTED IN 1976 TO AROUND DOLS 175 MILLION.

3. EFFECT OF OPEC PRICE RISE. EXTRAPOLATING FROM THE 1976 FIGURE OF DOLS 175 MILLION AND KEEPING THE SAME PROPORTIONS FROM THE UAE, SAUDI ARABIA, AND IRAN, THE COST I

ACY 1977 WOULD BE AT LEAST 186.7 MILLION. (THIS IGNORES THE ADDITIONAL FIVE PERCENT PRICE INCREASE SCHEDULED FOR JULY 1, 1977.) SUCH AN INCREASE IN THE RANGE OF \$11.7 MILLION TO, SAY, \$15 MILLION WOULD BE MANAGEABLE DURING CY 1977.

A. FOREIGN EXCHANGE RESERVE POSITION COMFORTABLE. BDG FOREX RESERVES AMOUNTED TO DOLS 271 MILLION ON DECEMBER 30 AND ARE EXPECTED TO REMAIN COMFORTABLE, AT LEAST THROUGH JUNE 30, 1977;

B. BANGLADESH IS TO BENEFIT FROM THE OPEC SPECIAL FUND DURING EARLY CY 1977 BY, WE UNDERSTAND, DOLS 13.8 MILLION:

C. RAW JUTE PRICES WERE RAISED BY NINE TO TWENTY DOLLARS PER TON EFFECTIVE JANUARY FIRST. THE JUTE SECRETARY DENIED ANY RELATIONSHIP BETWEEN THE OPEC DECISION AND THIS RAW JUTE PRICE INCREASE, WHICH GIVEN THE PRESENT EXPORT OUTLOOK, THE SECRETARY EXPECTED WILL BRING IN ANOTHER DOLS ONE MILLION BY JUNE 30 AND HENCE PERHAPS TWO MILLION IN CY 1977. HOWEVER, THE PRESS HAS QUOTED EXPORTERS AS SAYING. "YOU CAN WELL LINK THE LIMITED OFFICIAL USE

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INCREASE WITH THE OIL PRICE HIKE," BECAUSE OIL IS THE MAJOR INGREDIENT IN THE PRODUCTION OF SYNTHETIC FIBRE, THE PRINCIPAL COMPETITOR OF JUTE.

4. COMMENT: THE OPEC PRICE RISES WILL HURT BANGLADESH, WHICH EARNS LESS THAN \$400 MILLION FROM EXPORTS ANNUALLY, BUT ARAB AID WILL OFFSET THE DAMAGE, AT LEAST IN CY 1977.

5. WE HAVE SENT COPIES OF THE WHITE HOUSE STATEMENT (REFTEL A) TO SELECTED BDG OFFICIALS, INCLUDING THE PETROLEUM SECRETARY. MASTERS

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